

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Litchfield Township	County Hillsdale
Fiscal Year End March 31, 2006	Opinion Date July 15, 2006	Date Audit Report Submitted to State September 29, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

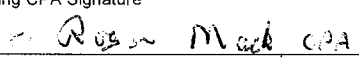
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Willis & Jurasek, P.C.		Telephone Number (517) 788-8660	
Street Address 2545 Spring Arbor Road, Suite 200		City Jackson	State MI
Zip 48203			
Authorizing CPA Signature 	Printed Name F. Roger Mack	License Number 1101020342	

Litchfield Township
County of Hillsdale, Michigan

Financial Statements
And Independent Auditors' Report

Year Ended March 31, 2006

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Independent Auditors' Report

Township Board of Litchfield Township
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Litchfield Township as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Litchfield Township as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of April 1, 2004.

Litchfield Township has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

The budgetary comparison information, as listed in the table of contents, is not a required part of the financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

WILLIS & JURASEK, P.C.
July 15, 2006
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Litchfield Township
Statement of Net Assets
March 31, 2006

	<u>Primary Government Governmental Activities</u>
Assets:	
Cash and investments	\$ 162,498
Receivables	20,594
Due from tax collection fund	74,395
Investment in joint venture	40,490
Capital assets not being depreciated	16,001
Capital assets being depreciated, net	<u>123,079</u>
Total assets	<u>437,057</u>
 Net Assets:	
Invested in capital assets, net of related debt	139,080
Unrestricted	<u>297,977</u>
Total net assets	<u>\$ 437,057</u>

Litchfield Township
Statement of Activities
Year Ended March 31, 2006

Functions/Programs	Program Revenues			Net (Expenses)
				Revenues and
	Expenses	Charges	Operating Grants	Changes in
		for Services	and Contributions	Net Assets
				Governmental
				Activities
Primary Government				
Governmental activities:				
Legislative	\$ 3,321	\$ -	\$ -	(3,321)
General government	72,490	28,914	-	(43,576)
Public safety	47,983	-	-	(47,983)
Highways and streets	28,240	-	-	(28,240)
Culture and recreation	1,258	-	-	(1,258)
Other	10,714	-	-	(10,714)
Total governmental activities	164,006	28,914	-	(135,092)
General revenues:				
Property taxes				74,233
State shared revenue				67,329
Interest and investment earnings				4,283
Other revenues				29,425
Total general revenues				175,270
Changes in Net Assets				40,178
Net Assets - Beginning of Year				370,159
Net Assets - End of Year				\$ 410,337

Litchfield TownshipBalance Sheet
Governmental Funds
March 31, 2006

	<u>General Fund</u>
<u>Assets</u>	
Cash and investments	\$ 162,498
Receivables:	
Taxes receivable	9,542
Due from other governmental units	11,052
Due from other funds	<u>74,395</u>
Total assets	<u>\$ 257,487</u>
<u>Fund Balances</u>	
Fund Balances:	
Designated for cemetery	26,720
Unreserved; undesignated	<u>\$ 230,767</u>
Total fund balances	<u>257,487</u>
 Total liabilities and fund balances	 <u>\$ 257,487</u>

See Notes to Financial Statements.

Litchfield Township

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets March 31, 2006

Total Fund Balances - Governmental Funds	\$ 257,487
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is

\$ 305,421

Accumulated depreciation is

(166,341)

139,080

Investments in joint ventures are included as part of governmental
activities in the Statement of Net Assets

40,490

Total Net Assets - Governmental Activities

\$ 437,057

Litchfield Township
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended March 31, 2006

	<u>General</u>
Revenues:	
Taxes	\$ 74,233
Intergovernmental	67,329
Charges for services	28,914
Interest earnings	4,283
Other	<u>6,081</u>
Total revenues	<u>180,840</u>
Expenditures:	
Legislative	3,321
General government	72,490
Public safety	36,123
Highways and streets	28,240
Culture and recreation	1,258
Other	10,714
Capital outlay	<u>15,001</u>
Total expenditures	<u>167,147</u>
Net Changes in Fund Balances	13,693
Fund Balances - Beginning of Year	<u>243,794</u>
Fund Balances - End of Year	<u>\$ 257,487</u>

See Notes to Financial Statements.

Litchfield Township
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended March 31, 2006

Net Changes in Fund Balances - Total Governmental Funds	\$	13,693
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Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their estimated
useful lives as depreciation.

Depreciation expense	\$ (11,860)		
Capital outlay	<u>15,001</u>		3,141

Net income from joint venture is not recorded in the governmental funds,
but is recorded in the Statement of Activities

23,344

Change in Net Assets of Governmental Activities

\$ 40,178

Litchfield Township
Statement of Fiduciary Net Assets
Fiduciary Funds
March 31, 2006

	<u>Cemetery Trust Fund</u>	<u>Agency Fund</u>
Assets:		
Cash and cash equivalents	\$ 40,756	\$ 97,540
Liabilities:		
Due to other funds	-	\$ 74,395
Due to other governmental agencies	-	23,145
Total liabilities	<u> </u>	<u>\$ 97,540</u>
Net Assets:		
Restricted for special purposes	<u>40,756</u>	
Total net assets	<u>\$ 40,756</u>	

Litchfield Township
Statement of Change in Fiduciary Net Assets
Fiduciary Funds
Year Ended March 31, 2006

	<u>Cemetery Trust Fund</u>
Revenues:	
Interest and investment earnings	\$ 771
Total revenues	<u>771</u>
Change in Net Assets	771
Net Assets - Beginning of Year	<u>39,985</u>
Net Assets - End of Year	<u><u>\$ 40,756</u></u>

See Notes to Financial Statements.

Litchfield Township

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of Litchfield Township have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Adoption of New Accounting Standards

During the fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, and amendments to GASB Statement No. 21 and No. 34, issued June 2001, and in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the Township to prepare government-wide financial statements on an accrual basis and other various presentation changes.

Reporting Entity

Litchfield Township operates under an elected Board of Trustees and provides various services to its residents including public safety, community enrichment and development, and human services. The accompanying financial statements of Litchfield Township have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The criteria established by the GASB for determining which of the governmental organizations are a part of the Township's reporting entity include oversight responsibility, fiscal dependency, scope of public service, and whether the financial statements would be misleading if data were not included. Based on the application of the criteria, the Township does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Litchfield Township
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund – This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fiduciary Fund Types - These Funds, used to account for assets held in trust or as an agent for others, include the Tax Collection Fund and the Cemetery Trust Fund.

Additional Financial Statement Presentation Information – Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Litchfield Township
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The Township reports its investments (when applicable) in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the Township to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Township is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Receivables and Payables – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Litchfield Township
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued) - Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Equipment and furniture	5 - 20

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted for use for specific purposes.

Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes - The government's property taxes are levied each December 1 on the taxable valuation of property located in the Township as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 28; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Township for 2005 had a taxable value of approximately \$26,599,000. The government's general operating tax rate for fiscal year 2005-06 was .8306 mills for operating, 1.0 mills for fire and .9663 mill for roads.

Note 2 - Stewardship, Compliance and Accountability

The General Fund is the governmental fund type under formal budgetary control. The Township adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and annual appropriation act to implement the budget.

- 1) A General Fund budget is presented to the Township Board in February, at which time hearings on the budget are scheduled.
- 2) The budget, and an appropriation ordinance implementing it, is then adopted in March.
- 3) Formal budget integration is employed as a management control device during the year for all funds.
- 4) Budgets presented for the General Fund were prepared on a modified cash basis of accounting. Encumbrances are not recorded at year end. Appropriations lapse at the end of the fiscal year.

Litchfield Township
Notes to Financial Statements

Note 2 - Stewardship, Compliance and Accountability (Continued)

- 5) Expenditures may not legally exceed activity (department) totals in the General Fund. Excess of expenditures over budgeted amounts are disclosed in the Budgetary Comparison Schedule.
- 6) The Governing Board has the authority to amend all budgets at the fund level. It further has the right to amend the General Fund at the activity level if it desires. Management has no authority to amend budgets at the fund level.
- 7) The budgetary information presented has not been amended during the year by an official action of the Township Board.

Note 3 – Deposits and Investments

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	\$ <u>162,498</u>	\$ <u>138,296</u>	\$ <u>300,794</u>

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 147,636
Investments in bank money market funds	95,584
Investments in Putnam Government Income mutual funds	<u>57,574</u>
Total	<u>\$ 300,794</u>

Investment and Deposit Risk

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. The Township's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment in the governmental mutual funds had an average maturity of less than one year.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The Township's investment policy does not have specific limits in excess of State law on investment credit risk. The Township's investment in the government income mutual funds was rated AAA by Standard & Poor's.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. The Township has not adopted and State law does not require a policy for deposit custodial credit risk. As of year end, \$49,703 of the Township's bank balance of \$150,040 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Litchfield Township
Notes to Financial Statements

Note 4 - Receivables

Receivables of the governmental activities of the primary government at March 31, 2006, consist of the following:

Other governmental units (primarily the State of Michigan)	\$ 11,052
Taxes receivable	<u>9,542</u>
Total	<u>\$ 20,594</u>

Note 5 - Capital Assets

Capital assets activity for the year ended March 31, 2006 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ <u>1,000</u>	\$ <u>15,001</u>	\$ <u>-</u>	\$ <u>16,001</u>
Total capital assets not being depreciated	<u>1,000</u>	<u>15,001</u>	<u>-</u>	<u>16,001</u>
Capital assets being depreciated:				
Buildings and improvements	17,000	-	-	17,000
Equipment and furniture	<u>272,420</u>	<u>-</u>	<u>-</u>	<u>272,420</u>
Total capital assets being depreciated	<u>289,420</u>	<u>-</u>	<u>-</u>	<u>289,420</u>
Accumulated depreciation:				
Buildings and improvements	15,000	-	-	15,000
Equipment and furniture	<u>139,481</u>	<u>11,860</u>	<u>-</u>	<u>151,341</u>
Total accumulated depreciation	<u>154,481</u>	<u>11,860</u>	<u>-</u>	<u>166,341</u>
Total capital assets being depreciated - net	<u>134,939</u>	<u>(11,860)</u>	<u>-</u>	<u>123,079</u>
Governmental activities capital assets - net	<u>\$ 135,939</u>	<u>\$ 3,141</u>	<u>\$ -</u>	<u>\$ 139,080</u>

Depreciation expense was allocated to public safety in the amount of \$11,860.

Note 6 - Interfund Receivables, Payables and Transfers

The Township reports interfund balances between funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the Statement of Net Assets/Balance Sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 74,395	\$ -
Fiduciary Fund	<u>-</u>	<u>74,395</u>
	<u>\$ 74,395</u>	<u>\$ 74,395</u>

Litchfield Township
Notes to Financial Statements

Note 7 - Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2006, the Township carried commercial insurance to cover all risks of losses. The Township has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Note 8 - Designated Fund Balance – General Fund

Certain amounts in the General Fund have been designated for specific purposes. At March 31, 2006, these amounts were as follows:

Designated for cemetery	\$ <u>26,720</u>
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Note 9 - Joint Ventures

The Township participates with the City of Litchfield in the Litchfield Fire Department (the "Department"), a joint venture pursuant to an agreement entered into between the two parties. A seven member Board of Directors comprised of two members of the City of Litchfield Council, two members of Litchfield Township Board, one member of Scipio Township Board, one member of Butler Township Board and one member from the community at large govern the Department.

Either the City of Litchfield or Litchfield Township has the power to terminate the joint venture. However, notice of termination must be given six months prior to the Department's fiscal year end. Upon termination, all property of the Department will be liquidated and any outstanding indebtedness will be paid. The proceeds then remaining will be divided equally between the City of Litchfield and Litchfield Township.

The Department is funded by fire contracts with local townships and equal contributions made by the City of Litchfield and Litchfield Township. The Department reported revenues in excess of expenditures in the amount of \$46,687 in its latest audited financial statements for the year ended June 30, 2005. Litchfield Township reported \$23,344 (fifty-percent) of the revenues over expenditures in its government-wide financial statements in governmental activities for its year ended March 31, 2006. The Township's investment in the joint venture is reported in the Statement of Net Assets under governmental activities in the amount of \$40,490. The financial activity of the Department is audited by other auditors.

Note 9 - Joint Ventures (Continued)

As of June 30, 2005, the Department did not have title to any real property or rescue vehicles. The City of Litchfield and Litchfield Township have title, either jointly or individually, to all fire rescue vehicles used in the Department's operation. Additionally, the City of Litchfield and Litchfield Township were mutually obligated in a capital lease agreement to finance a rescue vehicle, which was paid off during the Township's current fiscal year end.

Copies of the Department's financial statements may be obtained at the City of Litchfield offices.

Required Supplemental Information

Litchfield Township
General Fund
Budgetary Comparison Schedule
Year Ended March 31, 2006

	2006		
	Original	Final	
	Budget	Budget	Actual
Revenues:			
Property taxes	\$ 77,000	\$ 77,000	\$ 74,233
State shared revenue	68,000	68,000	67,329
Charges for services	21,500	21,500	28,914
Interest	2,500	2,500	4,283
Other	5,500	5,500	6,081
Total revenues	<u>174,500</u>	<u>174,500</u>	<u>180,840</u>
Expenditures:			
Legislative:			
Township board	<u>2,840</u>	<u>2,840</u>	<u>3,321</u>
General government:			
Supervisor	5,200	5,200	5,200
Elections	500	500	56
Legal	1,000	1,000	300
Clerk	7,060	7,060	9,670
Board of review	500	500	468
Treasurer	7,500	7,500	8,812
Assessor	7,020	7,020	7,548
Township hall	3,500	3,500	5,597
Cemetery	<u>35,000</u>	<u>35,000</u>	<u>34,839</u>
Total general government	<u>67,280</u>	<u>67,280</u>	<u>72,490</u>
Public safety:			
Fire	36,000	36,000	35,000
Zoning	<u>500</u>	<u>500</u>	<u>1,123</u>
Total public safety	<u>36,500</u>	<u>36,500</u>	<u>36,123</u>
Highways and streets:			
Roads	23,500	23,500	28,195
Drains at large	<u>2,000</u>	<u>2,000</u>	<u>45</u>
Total highways and streets	<u>25,500</u>	<u>25,500</u>	<u>28,240</u>
Culture and recreation:			
Library	<u>3,000</u>	<u>3,000</u>	<u>1,258</u>
Other	<u>12,600</u>	<u>12,600</u>	<u>10,714</u>
Capital outlay	<u>26,780</u>	<u>26,780</u>	<u>15,001</u>
Total expenditures	<u>174,500</u>	<u>174,500</u>	<u>167,147</u>
Changes in Fund Balances	-	-	13,693
Fund Balances - Beginning of Year	<u>243,794</u>	<u>243,794</u>	<u>243,794</u>
Fund Balances - End of Year	<u>\$ 243,794</u>	<u>\$ 243,794</u>	<u>\$ 257,487</u>



July 15, 2006

Members of Township Board
Litchfield Township
Litchfield, Michigan

We have audited the financial statements of Litchfield Township for the year ended March 31, 2006, and have issued our report thereon dated July 15, 2006.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Township's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

WILLIS & JURASEK, P.C.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no material estimates recorded during the current year.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). There were no significant audit adjustments recorded at year end.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the Township Board and management of the Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

Litchfield Township
Comments and Recommendations
Year Ended March 31, 2006

Budget

Public Act 621 requires budget amendments prior to actual expenditures being made if expenditures exceed budgeted amounts. During the year, the Township had certain actual amounts that exceeded the budget at year-end. While the amounts were minor in nature, procedures should be put in place to amend the budget as needed during the year when expenditures exceed the budget. This may require budget amendments to be made periodically during the fiscal year.

Segregation of Duties

Substantially all of the accounting and financial management functions of the Township are performed by two individuals, both of which are elected officials. While the size and resources of the Township are limited in terms of providing adequate separation of duties, the Board should be mindful of this condition and, where possible, establish reasonable control procedures.

Distribution of Property Tax Collections

It was noted during the audit that distributions to the area District Library were not made timely and were distributed in one lump sum toward the end of your fiscal year. This does not follow the guidelines established by the State of Michigan for tax distributions. This should be monitored in the future and tax collections distributed in a timely manner. This can result in hardship on the taxing unit that does not receive their amounts timely, especially in this case since the bulk of the revenue for the Library is derived from the taxes collected on their behalf.